

CITY OF JEFFERSON
INDEPENDENT AUDITORS' REPORTS
BASIC FINANCIAL STATEMENTS
AND SUPPLEMENTARY INFORMATION
SCHEDULE OF FINDINGS AND QUESTIONED COSTS
JUNE 30, 2004

Table of Contents

	<u>Page</u>
Officials	3
Independent Auditors' Report	5-6
Basic Financial Statements:	<u>Exhibit</u>
Government-wide Financial Statement:	
Statement of Activities and Net Assets – Cash Basis	A 9-10
Governmental Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	B 11-12
Proprietary Fund Financial Statements:	
Statement of Cash Receipts, Disbursements and Changes in Cash Balances	C 14
Notes to Financial Statements	15-22
Required Supplementary Information:	
Budgetary Comparison Schedule of Receipts, Disbursements and Changes in Balances - Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds	24-25
Notes to Required Supplementary Information – Budgetary Reporting	26
Other Supplementary Information:	<u>Schedule</u>
Statement of Cash Receipts, Disbursements and Changes in Cash Balances - Nonmajor Governmental Funds	1 28-31
Schedule of Indebtedness	2 32-33
Bond and Note Maturities	3 34
Schedule of Receipts by Source and Disbursements by Function – All Governmental Funds	4 35
Schedule of Expenditures of Federal Awards	5 36
Independent Auditor's Report on Compliance and on Internal Control over Financial Reporting	38-39
Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance	42-43
Schedule of Findings and Questioned Costs	44-51

City of Jefferson

Officials

<u>Name</u>	<u>Title</u>	<u>Term Expires</u>
(Before January 2004)		
Charles Davis	Mayor	Jan 2004
Larry Teeple	Council Member	Jan 2006
Todd Madson	Council Member	Jan 2006
Bill Figenshaw	Council Member	Jan 2006
Craig Berry	Council Member	Jan 2004
Keith Roberts	Council Member	Jan 2004
(After January 2004)		
Todd Madson	Mayor	Jan 2008
Larry Teeple	Council Member	Jan 2006
Nancy Teusch	Council Member	Jan 2006
Bill Figenshaw	Council Member	Jan 2006
Craig Hertel	Council Member	Jan 2008
Randy Bunkers	Council Member	Jan 2008
Diane Kennedy	Clerk	Jan 2005
Douglas McDermott	Treasurer	Jan 2005
Robert A. Schwarzkopf	Attorney	Jan 2005

City of Jefferson

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone: 515-233-4060 FAX: 515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone: 515-252-7141 FAX: 515-252-7073

Independent Auditor's Report

To the Honorable Mayor and
Members of the City Council:

We have audited the accompanying financial statements of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson, Iowa, as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements listed in the table of contents. These financial statements are the responsibility of the City of Jefferson's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe our audit provides a reasonable basis for our opinions.

As described in Note 1, these financial statements were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective cash basis financial position of the governmental activities, the business type activities, each major fund, the discretely presented component unit and the aggregate remaining fund information of the City of Jefferson as of June 30, 2004, and the respective changes in cash basis financial position for the year then ended in conformity with the basis of accounting described in Note 1.

As described in Note 16, during the year ended June 30, 2004, the City adopted Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures; and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences.

In accordance with Government Auditing Standards, we have also issued our reports dated September 8, 2004 on our consideration of the City of Jefferson's internal control over financial reporting and our tests of its compliance with certain provisions of laws, regulations, contracts and grants. Those reports are an integral part of an audit performed in accordance with Government Auditing Standards and should be read in conjunction with this report in considering the results of our audit.

The City has not presented management's discussion and analysis which introduces the basic financial statements by presenting certain financial information as well as management's analytical insights on that information that the Governmental Accounting Standards Board has determined is necessary to supplement, although not required to be a part of, the basic financial statements.

Our audit was performed for the purpose of forming opinions on the financial statements that collectively comprise the City of Jefferson's basic financial statements. We previously audited, in accordance with the standards referred to in the second paragraph of this report, the financial statements for the three years ended June 30, 2003 (none of which are presented herein) and expressed unqualified opinions on those financial statements. Other supplementary information included in Schedules 1 through 5, including the Schedule of Expenditures of Federal Awards required by U.S. Office of Management and Budget (OMB) Circular A-133, is presented for purposes of additional analysis and is not a required part of the basic financial statements. Such information has been subjected to the auditing procedures applied in our audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

September 8, 2004
Ames, Iowa

City of Jefferson

Basic Financial Statements

City of Jefferson

Statement of Activities and Net Assets – Cash Basis

As of and for the year ended June 30, 2004

	Disbursements	Program Receipts		
		Charges for Service	Operating Grants, Contributions, and Restricted Interest	Capital Grants, Contributions and Restricted Interest
Functions / Programs:				
Governmental activities:				
Public safety	\$ 556,413	5,000	11,950	-
Public works	423,836	61,884	542,264	-
Culture and recreation	778,352	259,494	75,929	213
Community and economic development	154,769	-	-	-
General government	360,436	40,062	-	-
Debt service	577,531	-	-	-
Capital projects	4,102,904	-	-	-
Total governmental activities	6,954,241	366,440	630,143	213
Business type activities:				
Water	641,692	703,025	-	-
Sewer	276,139	497,813	-	-
Sanitation	386,299	452,001	-	-
Total business type activities	1,304,130	1,652,839	-	-
Component Unit:				
Airport	38,070	414	-	-
Total	\$ 8,296,441	2,019,693	630,143	213
General Receipts:				
Property tax levied for:				
General purposes				
Tax increment financing				
Debt service				
Other city tax				
Grants and contributions not restricted to specific purpose				
Unrestricted interest on investments				
Bond/Note proceeds, net				
Miscellaneous				
Sale of assets				
Bank franchise tax				
Rent				
Transfers				
Total general receipts and transfers				
Change in cash basis net assets				
Cash basis net assets beginning of year				
Cash basis net assets end of year				
Cash Basis Net Assets				
Restricted:				
Streets				
Urban renewal purposes				
Debt service				
Other purposes				
Unrestricted				
Total cash basis net assets				

See notes to financial statements.

Net (Disbursements) Receipts and Changes in Cash Basis Net Assets			
Governmental Activities	Business Type Activities	Total Primary Government	Major Discretely Presented Component Unit
(539,463)	-	(539,463)	-
180,312	-	180,312	-
(442,716)	-	(442,716)	-
(154,769)	-	(154,769)	-
(320,374)	-	(320,374)	-
(577,531)	-	(577,531)	-
(4,102,904)	-	(4,102,904)	-
(5,957,445)	-	(5,957,445)	-
-	61,333	61,333	-
-	221,674	221,674	-
-	65,702	65,702	-
-	348,709	348,709	-
-	-	-	(37,656)
(5,957,445)	348,709	(5,608,736)	(37,656)
1,072,357	-	1,072,357	-
184,977	-	184,977	-
341,078	-	341,078	-
28,083	-	28,083	-
6,933	-	6,933	-
7,927	12,372	20,299	-
5,293,518	-	5,293,518	-
64,462	58,197	122,659	-
3,400	2,000	5,400	-
15,291	-	15,291	-
4,085	-	4,085	38,983
65,960	(65,960)	-	-
7,088,071	6,609	7,094,680	38,983
1,130,626	355,318	1,485,944	1,327
2,116,073	1,514,738	3,630,811	23,472
\$ 3,246,699	1,870,056	5,116,755	24,799
\$ 222,385	-	222,385	-
342,158	-	342,158	-
112,758	51,758	164,516	-
479,525	-	479,525	-
2,089,873	1,818,298	3,908,171	24,799
\$ 3,246,699	1,870,056	5,116,755	24,799

City of Jefferson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue			
	General	Employee Benefits	Road Use Tax	Urban Renewal Tax Increment
Receipts:				
Property tax	\$ 748,997	323,360	-	-
Tax increment financing collections	-	-	-	184,977
Other city tax	57,917	-	-	-
Licenses and permits	14,600	-	-	-
Use of money and property	11,342	-	-	-
Intergovernmental	86,295	-	385,288	-
Charges for service	254,394	-	-	-
Miscellaneous	55,306	-	508	-
Total receipts	1,228,851	323,360	385,796	184,977
Disbursements:				
Operating:				
Public safety	556,095	-	-	-
Public works	17,585	-	322,916	-
Culture and recreation	720,952	-	-	-
Community and economic development	68,666	-	-	-
General government	360,436	-	-	-
Debt service	-	-	-	182,426
Capital projects	-	-	-	-
Total disbursements	1,723,734	-	322,916	182,426
Excess (deficiency) of receipts over (under) disbursements	(494,883)	323,360	62,880	2,551
Other financing sources (uses):				
SRF loan proceeds (net of interest, discount)	-	-	-	-
General obligation bond proceeds, net	-	-	-	-
Sale of cemetery lots	5,100	-	-	-
Sale of capital assets	8,500	-	-	-
Operating transfers in	-	-	-	-
Operating transfers out	(2,013)	-	-	-
Total other financing sources (uses)	11,587	-	-	-
Net change in cash balances	(483,296)	323,360	62,880	2,551
Cash balances beginning of year	1,065,034	-	159,505	425,710
Cash balances end of year	\$ 581,738	323,360	222,385	428,261
Cash Basis Fund Balances				
Reserved:				
Debt service	\$ -	-	-	-
Unreserved:				
General fund	581,738	-	-	-
Special revenue funds	-	323,360	222,385	428,261
Capital projects fund	-	-	-	-
Permanent fund	-	-	-	-
Total cash basis fund balances	\$ 581,738	323,360	222,385	428,261

See notes to financial statements.

Debt Service	Capital Projects		Other	Total
General Obligation Bonds	Capital Improvements	Sewer Plant Construction	Nonmajor Governmental Funds	
341,078	-	-	-	1,413,435
-	-	-	-	184,977
-	-	-	-	57,917
-	-	-	-	14,600
-	-	-	883	12,225
-	-	-	135,139	606,722
-	-	-	61,884	316,278
-	-	-	59,777	115,591
341,078	-	-	257,683	2,721,745
-	-	-	318	556,413
-	-	-	83,335	423,836
-	-	-	57,400	778,352
-	-	-	86,103	154,769
-	-	-	8,722	369,158
395,105	-	-	-	577,531
-	626,488	3,150,240	326,176	4,102,904
395,105	626,488	3,150,240	562,054	6,962,963
(54,027)	(626,488)	(3,150,240)	(304,371)	(4,241,218)
-	-	3,447,762	-	3,447,762
-	1,845,756	-	-	1,845,756
-	-	-	-	5,100
-	-	-	-	8,500
-	-	680	266,059	266,739
-	(200,000)	-	-	(202,013)
-	1,645,756	3,448,442	266,059	5,371,844
(54,027)	1,019,268	298,202	(38,312)	1,130,626
166,785	-	(298,202)	597,241	2,116,073
112,758	1,019,268	-	558,929	3,246,699
112,758	-	-	-	112,758
-	-	-	-	581,738
-	-	-	449,737	1,423,743
-	1,019,268	-	(44,921)	974,347
-	-	-	154,113	154,113
112,758	1,019,268	-	558,929	3,246,699

City of Jefferson

City of Jefferson

Statement of Cash Receipts, Disbursements and Changes in Cash Balances
Proprietary Funds

As of and for the year ended June 30, 2004

	Enterprise Funds			
	Water	Sewer	Sanitation	Total
Operating receipts:	\$ 6,556	5,816	-	12,372
Use of money and property	703,025	497,813	452,001	1,652,839
Charges for service	44,760	13,008	429	58,197
Miscellaneous	754,341	516,637	452,430	1,723,408
Total operating receipts				-
Operating disbursements:	-	-	-	-
Public works	641,692	276,139	386,299	1,304,130
Business type activities	641,692	276,139	386,299	1,304,130
Total operating disbursements				-
Excess (deficiency) of operating receipts over (under) operating disbursements	112,649	240,498	66,131	419,278
Excess (deficiency) of receipts over (under) disbursements	112,649	240,498	66,131	419,278
Other financing sources (uses):	-	-	2,000	2,000
Sale of fixed assets	-	-	-	-
Operating transfers in	(65,280)	(680)	-	(65,960)
Operating transfers out	(65,280)	(680)	2,000	(63,960)
Total other financing sources (uses)				-
Net change in cash balances	47,369	239,818	68,131	355,318
Cash balances beginning of year	365,595	866,033	283,110	1,514,738
Cash balances end of year	\$ 412,964	1,105,851	351,241	1,870,056
Cash Basis Fund Balances				-
Reserved for debt service	\$ 208,974	27,757	-	236,731
Unreserved	203,990	1,078,094	351,241	1,633,325
Total cash basis fund balances	\$ 412,964	1,105,851	351,241	1,870,056

See notes to financial statements.

City of Jefferson

Notes to Financial Statements

June 30, 2004

(1) Summary of Significant Accounting Policies

The City of Jefferson is a political subdivision of the State of Iowa located in Greene County. It was first incorporated in 1854 and operates under the Home Rule provisions of the Constitution of Iowa. The City operates under the Mayor-Council form of government with the Mayor and Council Members elected on a non-partisan basis. The City provides numerous services to citizens, including public safety, public works, health and social services, culture and recreation, community and economic development, and general government services. The City also provides water and sewer utilities for its citizens.

A. Reporting Entity

For financial reporting purposes, the City of Jefferson has included all funds, organizations, agencies, boards, commissions and authorities. The City has also considered all potential component units for which it is financially accountable and other organizations for which the nature and significance of their relationship with the City are such that exclusion would cause the City's financial statements to be misleading or incomplete. The Governmental Accounting Standards Board has set forth criteria to be considered in determining financial accountability. These criteria include appointing a voting majority of an organization's governing body and (1) the ability of the City to impose its will on that organization or (2) the potential for the organization to provide specific benefits to or impose specific financial burdens on the City.

These financial statements present the City of Jefferson (the primary government) and its component unit. The component unit discussed below is included in the City's reporting entity because of the significance of its operational or financial relationship with the City.

Discretely Presented Component Unit

The Jefferson Municipal Airport Commission is presented in a separate column to emphasize that it is legally separate from the City, but is financially accountable to the City, or whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. The Commission was established pursuant to Chapter 330 of the Code of Iowa to operate the City's airport facility. The Commission is composed of five members appointed by the Jefferson City Council.

The Commission's operating budget is subject to the approval of the Jefferson City Council. The Jefferson Municipal Airport is presented as an Enterprise Fund.

Jointly Governed Organizations

The City participates in a few jointly governed organizations that provide goods or services to the citizenry of the City but do not meet the criteria of a joint venture since there is no ongoing financial interest or responsibility by the participating governments. City officials are members of the following boards and commissions: Greene County Recycling Agency, the Entity Board, and the Jefferson Municipal Airport Commission.

City officials are also members of the Greene County Development Corporation (GCDC) Board. The City paid a total of \$37,500 to GCDC during the fiscal year ended June 30, 2004.

B. Basis of Presentation

Government-wide Financial Statements - The Statement of Activities and Net Assets reports information on all of the nonfiduciary activities of the City. For the most part, the effect of interfund activity has been removed from this statement. Governmental activities, which are supported by tax and intergovernmental revenues, are reported separately from business type activities, which rely to a significant extent on fees and charges for services.

The Statement of Activities and Net Assets presents the City's nonfiduciary net assets. Net assets are reported in two categories:

Restricted net assets result when constraints placed on net asset use are either externally imposed or imposed by law through constitutional provisions or enabling legislation.

Unrestricted net assets consist of net assets that do not meet the definition of the preceding category. Unrestricted net assets often have constraints on resources imposed by management, which can be removed or modified.

The Statement of Activities and Net Assets demonstrates the degree to which the direct disbursements of a given function are offset by program receipts. Direct disbursements are those clearly identifiable with a specific function. Program receipts include 1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function and 2) grants, contributions and interest on investments restricted to meeting the operational or capital requirements of a particular function. Property tax and other items not properly included among program receipts are reported instead as general receipts.

Fund Financial Statements - Separate financial statements are provided for governmental funds and proprietary funds. Major individual governmental funds and major individual enterprise funds are reported as separate columns in the fund financial statements. All remaining governmental funds are aggregated and reported as nonmajor governmental funds.

The City reports the following major governmental funds:

The General Fund is the general operating fund of the City. All general tax receipts and other receipts not allocated by law or contractual agreement to some other fund are accounted for in this fund. From the fund are paid the general operating disbursements, the fixed charges and the capital improvement costs that are not paid from other funds.

Special Revenue:

The Road Use Tax Fund is used to account for road construction and maintenance.

The Urban Renewal Tax Increment Fund is used to account for urban renewal projects financed by tax increment financing.

The Employee Benefits Fund is used to account for employee benefits financed by the levy for employee benefits.

The Debt Service Fund is utilized to account for the payment of interest and principal on the City's general long-term debt.

The Capital Improvements Fund is used to accumulate resources for future projects within the City.

The Sewer Plant Construction Fund is used to finance the sewer plant construction improvements.

The City reports the following major proprietary funds:

The Water Fund accounts for the operation and maintenance of the City's water system.

The Sewer Fund accounts for the operation and maintenance of the City's waste water treatment and sanitary sewer system.

The Sanitation Fund accounts for operation of the City's sanitation services.

C. Measurement Focus and Basis of Accounting

The City of Jefferson maintains its financial records on the basis of cash receipts and disbursements and the financial statements of the City are prepared on that basis. The cash basis of accounting does not give effect to accounts receivable, accounts payable and accrued items. Accordingly, the financial statements do not present financial position and results of operations of the funds in accordance with U.S. generally accepted accounting principles.

Proprietary funds distinguish operating receipts and disbursements from non-operating items. Operating receipts and disbursements generally result from providing services and producing and delivering goods in connection with a proprietary fund's principal ongoing operations. All receipts and disbursements not meeting this definition are reported as non-operating receipts and disbursements.

D. Budgets and Budgetary Accounting

The budgetary comparison and related disclosures are reported as Required Supplementary Information. During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

(2) Cash and Pooled Investments

The City's deposits in banks at June 30, 2004 were entirely covered by federal depository insurance or by the State Sinking Fund in accordance with Chapter 12C of the Code of Iowa. This chapter provides for additional assessments against the depositories to insure there will be no loss of public funds.

The City is authorized by statute to invest public funds in obligations of the United States government, its agencies and instrumentalities; certificates of deposit or other evidences of deposit at federally insured depository institutions approved by the City Council; prime eligible bankers acceptances; certain high rated commercial paper; perfected repurchase agreements; certain registered open-end management investment companies; certain joint investment trusts; and warrants or improvement certificates of a drainage district.

The City and its component unit own \$2,280 par value cooperative stock, which was acquired by patronage dividend. The stock is not readily marketable, and can only be redeemed by the Coop. Therefore market value of the stock is not determinable. The stock is recorded on the books at \$2,280. The City's investments are categorized to give an indication of the level of risk assumed by the City at year end. The City's investments are all Category 1, which means the investments are insured or registered or the securities are held by the City or its agent in the City's name. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa.

In addition, the City had investments in the Iowa Public Agency Investment Trust which are valued at an amortized cost of \$322 pursuant to Rule 2a-7 under the Investment Company Act of 1940 and are not subject to risk categorization.

(3) Bonds and Notes Payable

Annual debt service requirements to maturity for general obligation bonds, urban renewal tax increment financing revenue bonds and revenue bonds and notes are as follows:

Year Ending June 30,	General Obligation		Urban Renewal Tax Increment Financing (TIF)		Revenue Bonds and Notes		Total	
	Bonds		Revenue Bonds					
	Principal	Interest	Principal	Interest	Principal	Interest	Principal	Interest
2005	\$ 280,000	132,883	162,494	18,900	369,000	198,790	811,494	350,573
2006	295,000	119,535	167,818	13,576	380,000	189,108	842,818	322,219
2007	310,000	105,483	173,317	8,077	390,000	179,133	873,317	292,693
2008	255,000	90,397	117,732	2,401	401,000	168,018	773,732	260,816
2009	265,000	79,115	-	-	412,000	155,788	677,000	234,903
2010 - 2014	1,515,000	227,268	-	-	1,804,000	578,609	3,319,000	805,877
2015 - 2019	340,000	12,580	-	-	1,316,000	349,380	1,656,000	361,960
2020 - 2024	-	-	-	-	1,524,000	139,860	1,524,000	139,860
Total	\$ 3,260,000	767,261	621,361	42,954	6,596,000 *	1,958,686 *	10,477,361	2,768,901

* Amount is based upon entire State Revolving loan being borrowed at fiscal year end. Only \$3,497,272 was actually outstanding as of June 30, 2004. The revenue bonds and notes totals also include the water revenue notes.

The urban renewal tax increment financing revenue bonds were issued for the purpose of defraying a portion of the costs of carrying out an urban renewal project of the City. The bonds are payable solely from the income and proceeds of the Special Revenue, Urban Renewal Tax Increment Fund and the taxes to be paid into the fund in accordance with Chapter 403.19 of the Code of Iowa. The proceeds of the urban renewal tax increment financing revenue bonds shall be expended only for purposes which are consistent with the plans of the City's urban renewal area. The bonds are not a general obligation of the City. However, the debt is subject to the constitutional debt limitation of the City.

The resolutions providing for the issuance of the revenue bonds and notes include the following provisions.

- (a) The notes will only be redeemed from the future earnings of the enterprise activity and the note holders hold a lien on the future earnings of the funds.
- (b) Sufficient monthly transfers shall be made to separate water and sewer revenue sinking accounts within the Enterprise Funds for the sole purpose of making the note principal and interest payments when due.
- (c) There shall be set apart and paid into the City's Water Revenue Debt Service Reserve Fund (the Reserve Fund) at the time of delivery the sum of \$182,000. Whenever the sum on deposit in the Reserve Fund has been reduced to less than the required balance, there shall be deposited into the Reserve Fund from the Net Revenues remaining, after first making the required deposits into the Operation and Maintenance Fund and the Sinking Fund, a sum equal to 25% of that month's total deposits into the Sinking Fund, until the sum on deposit in the Reserve Fund has been restored to the Required Reserve Fund Balance. All money credit to the Reserve Fund shall be used and is hereby pledged for the payment of principal and interest on the Series 2003 Bonds and any Parity Obligations whenever the Sinking Fund balance is insufficient.

The City is not in compliance with the provisions of the 2003 Water Revenue Note Resolution or the 2003 Sewer Revenue Bond Resolution.

(4) Pension and Retirement Benefits

The City contributes to the Iowa Public Employees Retirement System (IPERS), which is a cost-sharing multiple-employer defined benefit pension plan administered by the State of Iowa. IPERS provides retirement and death benefits which are established by state statute to plan members and beneficiaries. IPERS issues a publicly available financial report that includes financial statements and required supplementary information. The report may be obtained by writing to IPERS, P.O. Box 9117, Des Moines, Iowa, 50306-9117.

Plan members are required to contribute 3.70% of their annual covered salary and the City is required to contribute 5.75% of annual covered payroll, except for police employees, in which case the percentages are 5.93% and 8.90%, respectively. For firefighters, the percentages are 9.35% and 17%, respectively. For the year ended June 30, 2003, the contribution rates for police employees and the City were 6.04% and 9.07%, respectively, and for the year ended June 30, 2002, the contribution rates for police employees and the City were 6.20% and 9.29%, respectively. Contribution requirements are established by state statute. The City's contributions to IPERS for

the years ended June 30, 2004, 2003 and 2002 were \$69,949, \$70,037 and \$68,813, respectively, equal to the required contributions for each year.

(5) Compensated Absences

City employees accumulate a limited amount of earned but unused vacation and compensatory time for subsequent use or for payment upon termination, retirement or death. These accumulations are not recognized as disbursements by the City until used or paid. The City's approximate liability for earned vacation and compensatory time termination payments payable to employees at June 30, 2004, primarily relating to the General Fund, is as follows:

Type of Benefit	Amount
Vacation	\$ 21,767
Compensatory time	<u>14,000</u>
Total	<u>\$ 35,767</u>

This liability has been computed based on rates of pay in effect at June 30, 2004. Sick leave is payable when used. It is not paid upon termination, retirement, or death.

(6) Interfund Transfers

The detail of interfund transfers for the year ended June 30, 2004 is as follows:

Transfer to	Transfer from	Amount
Capital Projects:		
RACI Grant	General	\$ 2,013
Sewer Plant Construction	Enterprise:	
	Sewer Rental Collections	680
Water Meters	Enterprise:	
	Water Revenue Capital Improvements	64,046
Water Improvement System	Enterprise:	
	Water Revenue Capital Improvements	1,234
Airport Improvements	Capital Projects:	
	Capital Improvements	<u>200,000</u>
		<u>267,973</u>

Transfers generally move resources from the fund statutorily required to collect the resources to the fund statutorily required to disburse the resources.

(7) Bell Tower Community Foundation

The City entered into an agreement with the Bell Tower Community Foundation on April 15, 1994 to loan them up to \$35,000. During the fiscal years ended June 30,

1993 and 1994, the City loaned the Bell Tower Community Foundation \$32,028 based on this agreement. The loan is interest free and was originally scheduled to be paid back in full on May 1, 1998. However, during the fiscal year ended June 30, 1998, the City extended the loan until May 1, 2008. The balance of the loan on June 30, 2004 totaled \$32,028.

(8) Risk Management

The City is exposed to various risks of loss related to torts; theft, damage to and destruction of assets; errors and omissions; injuries to employees; and natural disasters. These risks are covered by the purchase of commercial insurance. The City assumes liability for any deductibles and claims in excess of coverage limitations. Settled claims from these risks have not exceeded commercial insurance coverage in any of the past three fiscal years.

(9) North Dallas County Landfill

An agency, the North Dallas County Landfill, has been established for the collection and disposal of solid waste. The Agency may not be accumulating sufficient financial resources, therefore, the City has an ongoing financial responsibility.

During the year ended June 30, 2004, the City of Jefferson paid the North Dallas County Landfill \$71,185 in user fees and \$13,878 in per capita fees. Complete financial statements for the Agency can be obtained from the North Dallas County Landfill Agency.

(10) Lease

The City has entered into a lease agreement with Van Horn Partnership for approximately 133 acres of farmland at the City's airport. The lease expires February 29, 2004, and automatically renews upon expiration from year-to-year unless either party gives notice not to renew the lease. The City receives \$132.50/acre, with one-half of the payment due by March 1, and the other half due by November 1 of each year. During the fiscal year ended June 30, 2004, the City received a total of \$17,623 under the lease agreement. The City also leases hangars at the airport. The amounts received under the leases vary depending on the size of the space rented out. Total rent collected during the year ended June 30, 2004 on the leases was \$15,360.

(11) Health Insurance

The City's health insurance plan includes a deductible of \$500 for single coverage and \$1,000 for family coverage. The City pays the first \$200 for individuals with single coverage and the first \$400 for individuals with family coverage. They city also pays up to a maximum of \$500 per employee per year for in-patient hospitalization.

(12) Note Receivable

During the year ended June 30, 1999, the City loaned \$100,677 to Tri-County Cash Lumber Mart, Inc. to assist them with the financing of water and sewer line improvements in connection with their development project. The note term began on October 28, 1998 and matures on November 1, 2008. Interest accrues at the rate of five percent per annum and is paid annually on or before November 1 of each year beginning on November 1, 1999. The entire principal balance and remaining accrued interest shall be paid in full on November 1, 2008. The remaining balance on the note was \$56,631 at June 30, 2004.

(13) Economic Development

On February 18, 1999, the City entered into a Community Economic Betterment Agreement (CEBA) with Iowa Department of Economic Development (IDED) and Parker Industries, Inc. The IDED provided a \$100,000 loan at zero percent interest payable in sixty monthly installments and a \$200,000 forgivable loan payable only if certain employment criteria are not met. The City of Jefferson's liability for the repayment of the note is limited to amounts collected through its good faith enforcement of the security interest obtained by the City.

During the fiscal year ended June 30, 2004, the City entered into a development agreement with West Central Coop in which the City agreed to pay \$660,000 in tax increment payments.

(14) Deficit Fund Balance

The City had deficit balances in the following funds at June 30, 2004:

Special Revenue Fund:	
Fareway Urban Renewal Tax Increment	\$86,103
Capital Projects Funds:	
Sewer Force Main	10,129
Airport Improvements	22,579
Harrison Street Sewer Main	36,661

The deficit in the Special Revenue Fund will be eliminated upon receipt of tax increment financing in the next fiscal year. The deficits in the projects will be eliminated by receipt of grant funds or transfers in the next fiscal year.

(15) Construction Commitments

The City has entered into various construction contracts totaling approximately \$4,693,000. The unpaid contract balances as of June 30, 2004 totaled approximately \$1,656,000 which will be paid as work on the projects progresses.

(16) Accounting Change and Restatements

Governmental Accounting Standards Board Statement No. 34, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments; Statement No. 37, Basic Financial Statements – and Management's Discussion and Analysis – for State and Local Governments: Omnibus; Statement No. 38, Certain Financial Statement Note Disclosures, and Statement No. 41, Budgetary Comparison Schedule – Perspective Differences, were implemented for the year ended June 30, 2004. The statements create new basic financial statements for reporting the City's financial activities. The financial statements now include a government-wide financial statement and fund financial statements which present information for individual major funds rather than by fund type. Nonmajor funds are presented in total in one column.

Required Supplementary Information

City of Jefferson
 Budgetary Comparison Schedule
 of Receipts, Disbursements, and Changes in Balances -
 Budget and Actual (Cash Basis) – All Governmental Funds and Proprietary Funds

Required Supplementary Information

Year ended June 30, 2004

	Governmental Funds Actual	Proprietary Funds Actual	Discretely Presented Component Unit Included in the Budget
Receipts:			
Property tax	\$ 1,413,435	-	-
Tax increment financing collections	184,977	-	-
Other city tax	57,917	-	-
Licenses and permits	14,600	-	-
Use of money and property	12,225	12,372	38,983
Intergovernmental	606,722	-	-
Charges for service	316,278	1,652,839	-
Miscellaneous	115,591	58,197	414
Total receipts	<u>2,721,745</u>	<u>1,723,408</u>	<u>39,397</u>
Disbursements:			
Public safety	556,413	-	-
Public works	340,501	-	-
Health and Social Services	-	-	-
Culture and recreation	778,352	-	-
Community and economic development	154,769	-	-
General government	369,158	-	-
Debt service	577,531	-	-
Capital projects	4,102,904	-	-
Business type activities	83,335	1,304,130	38,070
Total disbursements	<u>6,962,963</u>	<u>1,304,130</u>	<u>38,070</u>
Excess (deficiency) of receipts over (under) disbursements	(4,241,218)	419,278	1,327
Other financing sources, net	<u>5,371,844</u>	<u>(63,960)</u>	<u>-</u>
Excess of receipts and other financing sources over disbursements and other financing uses	1,130,626	355,318	1,327
Balances beginning of year	<u>2,116,073</u>	<u>1,514,738</u>	<u>23,472</u>
Balances end of year	<u>\$ 3,246,699</u>	<u>1,870,056</u>	<u>24,799</u>

See accompanying independent auditors' report.

Net	Budgeted Amounts		Final to Net Variance
	Original	Final	
1,413,435	1,011,527	1,327,237	86,198
184,977	181,500	181,500	3,477
57,917	410,524	94,814	(36,897)
14,600	10,000	15,400	(800)
63,580	79,930	73,930	(10,350)
606,722	584,889	4,077,289	(3,470,567)
1,969,117	1,998,050	1,928,050	41,067
174,202	99,000	99,000	75,202
4,484,550	4,375,420	7,797,220	(3,312,670)
556,413	509,384	629,884	73,471
378,571	421,110	421,110	42,539
-	5,000	12,100	12,100
778,352	800,672	823,372	45,020
154,769	256,194	351,044	196,275
369,158	384,540	384,540	15,382
577,531	352,100	395,110	(182,421)
4,102,904	-	4,298,000	195,096
1,387,465	1,615,063	1,679,563	292,098
8,305,163	4,344,063	8,994,723	689,560
(3,820,613)	31,357	(1,197,503)	(2,623,110)
5,307,884	-	1,726,756	3,581,128
1,487,271	31,357	529,253	958,018
3,654,283	2,700,809	2,700,809	953,474
5,141,554	2,732,166	3,230,062	1,911,492

City of Jefferson

Notes to Required Supplementary Information – Budgetary Reporting

June 30, 2004

In accordance with the Code of Iowa, the City Council annually adopts a budget on the cash basis following required public notice and hearing for all funds except Internal Service Funds and Fiduciary Funds. The annual budget may be amended during the year utilizing similar statutorily prescribed procedures.

Formal and legal budgetary control is based upon ten major classes of disbursements known as functions, not by fund or fund type. These ten functions are: public safety, public works, health and social services, culture and recreation, community and economic development, general government, debt service, capital projects, business type activities and non-program. Function disbursements required to be budgeted include disbursements for the General Fund, Special Revenue Funds, Debt Service Fund, Capital Projects Funds, Proprietary Funds and the Component Unit. Although the budget document presents function disbursements by fund, the legal level of control is at the aggregated function level, not by fund. During the year, one budget amendment increased budgeted receipts and disbursements by \$3,421,800 and \$4,650,660, respectively. The budget amendment is reflected in the final budgeted amounts.

During the year ended June 30, 2004, disbursements exceeded the amounts budgeted in the debt service function.

Other Supplementary Information

City of Jefferson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances
Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

					Special
	Recycling	Police Federal Forfeiture	Fareway Urban Renewal Tax Increment	Enrich Iowa	Unemployment Compensation
Receipts:					
Use of money and property	\$ -	-	-	-	372
Intergovernmental	-	-	-	2,972	-
Charges for service	61,884	-	-	-	-
Miscellaneous	39,341	-	-	-	-
Total receipts	101,225	-	-	2,972	372
Disbursements:					
Operating:					
Public safety	-	318	-	-	-
Culture and recreation	-	-	-	2,548	16,500
Community and economic development	-	-	86,103	-	-
General government	-	-	-	-	-
Capital projects	-	-	-	-	-
Business type activities	83,335	-	-	-	-
Total disbursements	83,335	318	86,103	2,548	16,500
Excess (deficiency) of receipts over (under) disbursements	17,890	(318)	(86,103)	424	(16,128)
Operating transfers in	-	-	-	-	-
Net change in cash balances	17,890	(318)	(86,103)	424	(16,128)
Cash balances beginning of year	78,874	2,370	-	-	24,208
Cash balances end of year	\$ 96,764	2,052	(86,103)	424	8,080
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 96,764	2,052	(86,103)	424	8,080
Capital projects funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 96,764	2,052	(86,103)	424	8,080

See accompanying independent auditors' report.

Revenue						
LEC Capital Improvement	Skate Park	Library	Cemetery Mahaney Mausoleum	Industrial Development Emergency Draw	Cemetery Land Reserve	Community Center
-	-	-	213	240	26	8
12,450	-	2,082	-	-	-	-
-	-	-	-	-	-	-
-	-	7,982	-	-	-	-
12,450	-	10,064	213	240	26	8
-	-	-	-	-	-	-
-	6,690	31,317	79	240	26	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	-	-	-	-	-	-
-	6,690	31,317	79	240	26	-
12,450	(6,690)	(21,253)	134	-	-	8
-	-	-	-	-	-	-
12,450	(6,690)	(21,253)	134	-	-	8
29,694	8,215	50,961	9,962	31,396	46,081	5,678
42,144	1,525	29,708	10,096	31,396	46,081	5,686
42,144	1,525	29,708	10,096	31,396	46,081	5,686
-	-	-	-	-	-	-
-	-	-	-	-	-	-
42,144	1,525	29,708	10,096	31,396	46,081	5,686

City of Jefferson

Statement of Cash Receipts, Disbursements
and Changes in Cash Balances

Nonmajor Governmental Funds

As of and for the year ended June 30, 2004

	Special Revenue				
	Payroll Clearing	Equipment Replacement	Health Insurance Sinking Fund	Cafeteria Plan	Self Insurance and Employee Benefits
Receipts					
Use of money and property	\$ -	24	-	-	-
Intergovernmental	-	-	-	-	-
Charges for service	-	-	-	-	-
Miscellaneous	377	-	-	6,933	-
Total receipts	377	24	-	6,933	-
Disbursements:					
Operating:					
Public safety	-	-	-	-	-
Culture and recreation	-	-	-	-	-
Community and economic development	-	-	-	-	-
General government	1	24	600	8,097	-
Capital projects	-	-	-	-	-
Business type activities	-	-	-	-	-
Total disbursements	1	24	600	8,097	-
Excess (deficiency) of receipts over (under) disbursements	376	-	(600)	(1,164)	-
Operating transfers in	-	-	-	-	-
Net change in cash balances	376	-	(600)	(1,164)	-
Cash balances beginning of year	9,321	206,041	700	2,120	45,090
Cash balances end of year	\$ 9,697	206,041	100	956	45,090
Cash Basis Fund Balances					
Unreserved:					
Special revenue funds	\$ 9,697	206,041	100	956	45,090
Capital projects funds	-	-	-	-	-
Permanent fund	-	-	-	-	-
Total cash basis fund balances	\$ 9,697	206,041	100	956	45,090

See accompanying independent auditors' report

Capital Projects								Permanent Cemetery Perpetual Care	Total
Sewer Force Main	Drainage District #89	RACI Grant	Airport Improvements	Drainage District #97	Drainage District #57	Water Meters	Harrison Street Sewer Main		
-	-	-	-	-	-	-	-	-	883
-	-	-	117,635	-	-	-	-	-	135,139
-	-	-	-	-	-	-	-	-	61,884
-	-	-	-	-	-	-	44	5,100	59,777
-	-	-	117,635	-	-	-	44	5,100	257,683
-	-	-	-	-	-	-	-	-	318
-	-	-	-	-	-	-	-	-	57,400
-	-	-	-	-	-	-	-	-	86,103
-	-	-	-	-	-	-	-	-	8,722
10,129	-	-	171,182	3,885	-	140,980	-	-	326,176
-	-	-	-	-	-	-	-	-	83,335
10,129	-	-	171,182	3,885	-	140,980	-	-	562,054
(10,129)	-	-	(53,547)	(3,885)	-	(140,980)	44	5,100	(304,371)
-	-	2,013	200,000	-	-	64,046	-	-	266,059
(10,129)	-	2,013	146,453	(3,885)	-	(76,934)	44	5,100	(38,312)
-	265	(2,013)	(169,032)	27,375	693	76,934	(36,705)	149,013	597,241
(10,129)	265	-	(22,579)	23,490	693	-	(36,661)	154,113	558,929
-	-	-	-	-	-	-	-	-	449,737
(10,129)	265	-	(22,579)	23,490	693	-	(36,661)	-	(44,921)
-	-	-	-	-	-	-	-	154,113	154,113
(10,129)	265	-	(22,579)	23,490	693	-	(36,661)	154,113	558,929

City of Jefferson
Schedule of Indebtedness
Year ended June 30, 2004

Obligation	Date of Issue	Interest Rates	Amount Originally Issued
General obligation bonds:			
Essential corporate purpose bond	Sep 1, 1995	4.12-5.50%	\$ 1,720,000
Essential corporate purpose bond	Mar 1, 1997	3.80-4.60%	1,300,000
Corporate purpose bonds	Sep 1, 2003	2.95-3.70%	1,875,000
Total			
Urban renewal tax increment financing (TIF) revenue bonds	Jun 1, 1999	3.25%	\$ 1,275,000
Revenue notes:			
Water	Mar 1, 2003	2.00-3.70%	\$ 1,820,000
State revolving loan:			
2003 Sewer revenue bonds	Jun 10, 2003	3.00%	\$ 4,951,000

See accompanying independent auditors' report.

Balance Beginning of Year	Issued During Year	Redeemed During Year	Balance End of Year	Interest Paid	Interest Due and Unpaid
1,055,000	-	130,000	925,000	54,860	-
600,000	-	140,000	460,000	27,240	-
-	1,875,000	-	1,875,000	42,405	-
1,655,000	1,875,000	270,000	3,260,000	124,505	-
778,640	-	157,279	621,361	24,115	-
1,820,000	-	175,000	1,645,000	67,200	-
-	3,497,272	-	3,497,272	1,366	-

City of Jefferson
Bond and Note Maturities
June 30, 2004

Year Ending June 30,	General Obligation Bonds						Total
	Essential		Essential		Corporate Purpose		
	Corporate Purpose		Corporate Purpose		Corporate Purpose		
	Issued Sep 1, 1995		Issued Mar 1, 1997		Issued Sep 1, 2003		
	Interest		Interest		Interest		
Rates	Amount	Rates	Amount	Rates	Amount		
2005	5.00%	\$ 135,000	4.55%	\$ 145,000		\$ -	280,000
2006	5.00	140,000	4.55	155,000		-	295,000
2007	5.15	150,000	4.60	160,000		-	310,000
2008	5.30	160,000		-	2.95	95,000	255,000
2009	5.40	165,000		-	2.95	100,000	265,000
2010	5.50	175,000		-	2.95	100,000	275,000
2011		-		-	3.15	290,000	290,000
2012		-		-	3.35	305,000	305,000
2013		-		-	3.45	315,000	315,000
2014		-		-	3.60	330,000	330,000
2015		-		-	3.70	340,000	340,000
Total		\$ 925,000		\$ 460,000		\$ 1,875,000	3,260,000

Year Ending June 30,	Urban Renewal Tax Increment Financing (TIF) Revenue Bonds 1999 Series		State Revolving Loan 2003 Sewer Revenue Bonds		Revenue Notes	
	Issued Jun 1, 1999		Issued Jun 10, 2003		Water	
	Issued Mar 1, 2003					
	Interest Rates	Amount	Interest Rates	Amount	Interest Rates	Amount
2005	5.25%	\$ 162,494	3.00%	\$ 184,000	2.25%	\$ 185,000
2006	5.25	167,818	3.00	190,000	2.25	190,000
2007	5.25	173,317	3.00	195,000	2.70	195,000
2008	5.25	117,732	3.00	201,000	3.10	200,000
2009		-	3.00	207,000	3.30	205,000
2010		-	3.00	214,000	3.30	215,000
2011		-	3.00	220,000	3.55	225,000
2012		-	3.00	227,000	3.70	230,000
2013		-	3.00	233,000		-
2014		-	3.00	240,000		-
2015		-	3.00	248,000		-
2016		-	3.00	255,000		-
2017		-	3.00	263,000		-
2018		-	3.00	271,000		-
2019		-	3.00	279,000		-
2020		-	3.00	287,000		-
2021		-	3.00	296,000		-
2022		-	3.00	304,000		-
2023		-	3.00	314,000		-
2024		-	3.00	323,000		-
Total		<u>\$ 621,361</u>		<u>\$ 4,951,000</u> *		<u>\$ 1,645,000</u>

* Amount is based upon entire loan being borrowed at fiscal year end.
Only \$3,497,272 was actually outstanding as of June 30, 2004.

See accompanying independent auditors' report.

City of Jefferson

Schedule of Receipts By Source and Disbursements By Function -
All Governmental Funds

June 30, 2004

	<u>2004</u>
Receipts:	
Property tax	\$ 1,413,435
Tax increment financing collecti ons	184,977
Other city tax	57,917
Licenses and permits	14,600
Use of money and property	12,225
Intergovernmental	606,722
Charges for service	316,278
Miscellaneous	<u>115,591</u>
Total	<u><u>\$ 2,721,745</u></u>
Disbursements:	
Operating:	
Public safety	\$ 556,413
Public works	423,836
Culture and recreation	778,352
Community and economic deve lopment	154,769
General gove rnment	369,158
Debt service	577,531
Capital projects	<u>4,102,904</u>
Total	<u><u>\$ 6,962,963</u></u>

See accompanying independent auditor's report.

City of Jefferson
Schedule of Expenditures of Federal Awards
Year ended June 30, 2004

Grantor/Program	CFDA Number	Agency Pass-through Number	Program Expenditures
Indirect:			
U.S. Environmental Program			
Agency:			
Iowa Department of Natural Resources:			
Capitalization Grants for State Revolving Funds	66.458	CS192219 01	\$ 535,000
Direct:			
U.S. Department of Transportation:			
Federal Aviation Administration:			
Airport Improvement Program	20.106	19004902	<u>20,000</u>
Total			<u>\$ 555,000</u>

Basis of Presentation – The Schedule of Expenditures of Federal Awards includes the federal grant activity of the City of Jefferson and is presented in conformity with an other comprehensive basis of accounting. The information on this schedule is presented in accordance with the requirements of OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Therefore, some amounts presented in this schedule may differ from amounts presented in, or used in the preparation of, the basic financial statements.

See accompanying independent auditors' report.

City of Jefferson

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone: 515-233-4060 FAX: 515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone: 515-252-7141 FAX: 515-252-7073

Independent Auditors' Report on Compliance and on Internal Control over Financial Reporting

To the Honorable Mayor and
Members of the City Council:

We have audited the financial statements of the City of Jefferson, Iowa, as of and for the year ended June 30, 2004, and have issued our report thereon dated September 8, 2004. Our report expressed an unqualified opinion on the financial statements which were prepared in conformity with an other comprehensive basis of accounting. We conducted our audit in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Compliance

As part of obtaining reasonable assurance about whether the City of Jefferson's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts and grants, non-compliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of non-compliance that are required to be reported under Government Auditing Standards. However, we noted certain immaterial instances of non-compliance that are described in Part IV of the accompanying Schedule of Findings and Questioned Costs.

Comments involving statutory and other legal matters about the City's operations for the year ended June 30, 2004 are based exclusively on knowledge obtained from procedures performed during our audit of the financial statements of the City. Since our audit was based on tests and samples, not all transactions that might have had an impact on the comments were necessarily audited. The comments involving statutory and other legal matters are not intended to constitute legal interpretations of those statutes. Prior year statutory comments have been resolved except for items IV-B-04, IV-I-04, IV-M-04, and IV-N-04.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the City of Jefferson's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operation that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over financial reporting that, in our judgment, could adversely affect the City of Jefferson's ability to record, process, summarize and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in Part II of the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements

in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item II-A-04 is a material weakness. Prior year reportable conditions have not been resolved.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson may report. This report is not intended to be and should not be used by anyone other than these specified parties.

We would like to acknowledge the many courtesies and assistance extended to us by personnel of the City of Jefferson during the course of our audit. Should you have any questions concerning any of the above matters, we shall be pleased to discuss them with you at your convenience.

September 8, 2004
Ames, Iowa

Independent Auditors' Report on Compliance with Requirements
Applicable to Each Major Program and Internal Control over Compliance

City of Jefferson

CLINE, DeVRIES & ALLEN, LLP

CERTIFIED PUBLIC ACCOUNTANTS

316 S. Duff Suite B – PO Box 187
Ames, Iowa 50010
Phone: 515-233-4060 FAX: 515-233-3703

13375 University Ave, Suite 203
Clive, Iowa 50325
Phone: 515-252-7141 FAX: 515-252-7073

Independent Auditor's Report on Compliance with Requirements Applicable to Each Major Program and Internal Control over Compliance

To the Honorable Mayor and
Members of the City Council:

Compliance

We have audited the compliance of the City of Jefferson, Iowa, with the types of compliance requirements described in U.S. Office of Management and Budget (OMB) Circular A-133 Compliance Supplement that are applicable to its major federal program for the year ended June 30, 2004. City of Jefferson's major federal program is identified in Part I of the accompanying Schedule of Findings and Questioned Costs. Compliance with the requirements of laws, regulations, contracts and grants applicable to its major federal program is the responsibility of the City of Jefferson's management. Our responsibility is to express an opinion on the City of Jefferson's compliance based on our audit.

We conducted our audit of compliance in accordance with U.S. generally accepted auditing standards, Chapter 11 of the Code of Iowa, the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States, and OMB Circular A-133, Audits of States, Local Governments, and Non-Profit Organizations. Those standards and provisions require that we plan and perform the audit to obtain reasonable assurance about whether non-compliance with the types of compliance requirements referred to above that could have a direct and material effect on a major federal program occurred. An audit includes examining, on a test basis, evidence about the City of Jefferson's compliance with those requirements and performing such other procedures as we considered necessary in the circumstances. We believe our audit provides a reasonable basis for our opinion. Our audit does not provide a legal determination on the City of Jefferson's compliance with those requirements.

In our opinion, the City of Jefferson complied, in all material respects, with the requirements referred to above that are applicable to its major federal program for the year ended June 30, 2004. However, the results of our auditing procedures disclosed an instance of non-compliance with those requirements that is required to be reported in accordance with OMB Circular A-133 and which is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

Internal Control Over Compliance

The management of the City of Jefferson is responsible for establishing and maintaining effective internal control over compliance with requirements of laws, regulations, contracts and grants applicable to federal programs. In planning and performing our audit, we considered the City of Jefferson's internal control over compliance with requirements that could have a direct and material effect on a major federal program in order to determine our auditing procedures for the purpose of expressing our opinion on compliance and to test and report on internal control over compliance in accordance with OMB Circular A-133.

We noted a matter involving the internal control over compliance and its operation that we consider to be a reportable condition. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation of the internal control over

compliance that, in our judgment, could adversely affect the City of Jefferson's ability to administer a major federal program in accordance with applicable requirements of laws, regulations, contracts and grants. The reportable condition is described as item III-A-04 in the accompanying Schedule of Findings and Questioned Costs.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that non-compliance with applicable requirements of laws, regulations, contracts and grants that would be material in relation to a major federal program being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over compliance would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to be material weaknesses. However, of the reportable conditions described above, we believe item III-A-04 is a material weakness.

This report, a public record by law, is intended solely for the information and use of the officials, employees and citizens of the City of Jefferson and other parties to whom the City of Jefferson may report, including federal awarding agencies and pass-through entities. This report is not intended to be and should not be used by anyone other than these specified parties.

September 20, 2004
Ames, Iowa

City of Jefferson
Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part I: Summary of the Independent Auditors' Results:

- (a) An unqualified opinion was issued on the financial statements which were prepared on the basis of cash receipts and disbursements, which is a comprehensive basis of accounting other than U.S. generally accepted accounting principles.
- (b) Reportable conditions in internal control over financial reporting were disclosed by the audit of the financial statements, including material weaknesses.
- (c) The audit did not disclose any non-compliance which is material to the financial statements.
- (d) A reportable condition in internal control over the major program was disclosed by the audit of the financial statements, including a material weakness.
- (e) An unqualified opinion was issued on compliance with requirements applicable to the major program.
- (f) The audit disclosed audit findings which are required to be reported in accordance with Office of Management and Budget Circular A-133, Section .510(a).
- (g) The major program was CFDA Number 66.458 – Capitalization Grants for State Revolving Funds.
- (h) The dollar threshold used to distinguish between Type A and Type B programs was \$300,000.
- (i) The City of Jefferson did not qualify as a low-risk auditee.

City of Jefferson
Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part II: Findings Related to the Financial Statements:

INSTANCES OF NON-COMPLIANCE:

No matters were noted.

REPORTABLE CONDITIONS:

- II-A-04 Segregation of Duties – One important aspect of internal control is the segregation of duties among employees to prevent an individual employee from handling duties which are incompatible. The cash receipts listing, bank deposits and the posting of the cash receipts to the cash receipts journal are all done by the same person.

Recommendation – We realize segregation of duties is difficult with a limited number of office employees. However, the City should review its control procedures to obtain the maximum internal control possible under the circumstances.

Response – We will consider this.

Conclusion – Response acknowledged. The City should segregate duties to the extent possible with existing personnel and utilize administrative personnel to provide additional control through review of financial transactions and reports.

- II-B-04 Delinquent Utility Accounts – The City does not have formal, written policies and procedures for handling delinquent utility accounts.

Recommendation – The City should establish written policies and procedures for dealing with utility customers with delinquent account balances.

Response – We will do so.

Conclusion – Response accepted.

- II-C-04 Check Signatures – The City's policy is to require dual signatures on all checks written. The City currently has two authorized individuals authorized to sign their checks. Signatures are printed by the City's computer system directly onto the check automatically. Either, but not both, of the authorized individuals can enter their password into the computer to have the checks printed with both signatures. This defeats the purpose of requiring dual signatures because it only takes one individual to access the computer to print both signatures.

Recommendation – If the computer software cannot be modified to prohibit one individual from accessing both signatures with their password, the City should

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

go back to manual signatures on checks to ensure two separate individuals are approving the checks prior to issuance.

Response – We will use a computer generated signature for one individual and a manual signature for the second individual's signature.

Conclusion – Response accepted.

City of Jefferson
Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part III: Findings and Questioned Costs For Federal Awards:

INSTANCE OF NON-COMPLIANCE:

None.

REPORTABLE CONDITION:

CFDA Number 66.458: Capitalization Funds for State Revolving Funds
Pass-through Agency Number: CS192219 01
Federal Award Year: 2004
Environmental Protection Agency
Passed through the Iowa Department of Natural Resources

- III-A-04 Segregation of Duties over Federal Receipts – The City did not properly segregate collection, deposit and record-keeping for receipts, including those related to federal programs. See item II-A-04.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Part IV: Other Findings Related to Statutory Reporting:

- IV-A-04 Official Depositories – A resolution naming official depositories has been approved by the City. The maximum deposit amounts stated in the resolution were not exceeded during the year ended June 30, 2004. However, one depository where the City has funds has not been included on the depository resolution.

Recommendation – The City should approve a new depository resolution that includes the new depository.

Response – We will do so.

Conclusion – Response accepted.

- IV-B-04 Certified Budget – Disbursements during the year ended June 30, 2004 exceeded the amounts budgeted in the debt service functions. Chapter 384.20 of the Code of Iowa states in part that public monies may not be expended or encumbered except under an annual or continuing appropriation.

The amounts on the amended budget in the "budget as last certified column" do not match the original budget on the community and economic development disbursements line and on the transfers out line. Also, the tax levy adopted was in excess of the estimate published which violates Chapter 384.16(5) of the Code of Iowa.

Recommendation – The budget should have been amended in accordance with Chapter 384.18 of the Code of Iowa before disbursements were allowed to exceed the budget. The City should contact the Office of Management and Budget to determine how to correct the errors on the amended budget and to determine what action should be taken regarding the tax levy.

Response – The budget was exceeded because a disbursement made out of the debt service fund should have been made out of a capital project fund. This was corrected in the next fiscal year.

The difference reported for community and economic development disbursements is due to a typing error.

Conclusion – Response accepted.

- IV-C-04 Questionable Disbursements – No disbursements were noted that may not meet the requirements of public purpose as defined in an Attorney General's opinion dated April 25, 1979.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

- IV-D-04 Travel Expense – No disbursements of City money for travel expenses of spouses of City officials or employees were noted.
- IV-E-04 Business Transactions – No material business transactions between the City and City officials or employees were noted.
- IV-F-04 Bond Coverage – Surety bond coverage of City officials and employees is in accordance with statutory provisions. The amount of coverage should be reviewed annually to insure that the coverage is adequate for current operations.
- IV-G-04 Council Minutes – No transactions were found that we believe should have been approved in the Council minutes but were not.
- IV-H-04 Deposits and Investments – The City and its component unit own \$2,327 par value common stock of the West Central Cooperative. Although this type of investment is not permitted by the Code of Iowa, it was acquired by patronage dividend, therefore the City is not in violation of Chapter 12 of the Code of Iowa. The stock is not readily marketable, and can only be redeemed by the Coop and thus no market value of the shares is determinable. However, the City should monitor the marketability of the stock and consider selling the stock if a market becomes available.
- IV-I-04 Revenue Bonds and Notes – The resolutions authorizing the issuance of the water and sewer revenue bonds require a minimum net revenue amount to be maintained. The City has not met either minimum amount for the fiscal year ended June 30, 2004.

Recommendation – The City should either increase revenues or decrease disbursements in sufficient amounts so that their minimum net revenue requirements can be met.

Response – We will do so.

Conclusion – Response accepted.

- IV-J-04 Debt – Interest earned on the proceeds of the general obligation bonds was not credited to the debt service fund or the capital projects fund for which the debt was issued in accordance with Ch 12C.9(2) of the Code of Iowa.

Also, an interest payment on the SRF debt was paid out of a capital projects fund rather than the sinking fund as required by the debt resolution.

Recommendation – The City should comply with the Code of Iowa and the debt resolutions.

Response – Future interest earned on bond/note proceeds will be credited to the proper account.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

A correction has been made in fiscal year 2004-2005 for the interest payment that was paid out of the wrong account.

Conclusion – Response accepted.

- IV-K-04 Employee Benefits Levy – The City properly recorded their employee benefits levy in a Special Revenue Fund. However, none of the money was disbursed from the fund during the fiscal year ended June 30, 2004.

Recommendation – The City should transfer the levy receipts to reimburse the fund where the employee benefits were paid from.

Response – The transfer was made in the fiscal year 2004-2005.

Conclusion – Response accepted.

- IV-L-04 IRS Forms 1099 – Although the City filed two form 1099s for 2003, they did not file them for all individuals/businesses that were required to receive them.

Recommendation – The City should file the required 1099s now for 2003 and in the future, they should ensure that all applicable forms are filed timely.

Response – We have done so for 2004.

Conclusion – Response accepted.

- IV-M-04 Outstanding Checks – Per Ch. 556.11 of the Code of Iowa, checks that are still outstanding after three years should be reported to the State Treasurer annually by November 1st. The City did not do this.

Recommendation – The City should comply with Ch. 556.11 of the Code of Iowa.

Response – We will comply with this requirement by November 1, 2005.

Conclusion – Response accepted.

- IV-N-04 Financial Condition – The City had the following deficit balances at June 30, 2004:

Special Revenue Fund:	
Fareway Urban Renewal Tax Increment	\$ 86,103
Capital Projects Funds:	
Harrison Street Sewer Main	36,661
Sewer Force Main	10,129
Airport Improvements	22,579

Recommendation – The City should investigate alternatives to eliminate these deficits in order to return these funds to a sound financial position.

City of Jefferson

Schedule of Findings and Questioned Costs

Year ended June 30, 2004

Response –The deficits will be eliminated.

Conclusion – Response accepted.

IV-O-04 Cancelled Check Images – The City does not retain images of backs of cancelled checks as required by Chapter 554D.114(5) of the Code of Iowa.

Recommendation – The City should request that the bank includes these in their monthly bank statements in the future.

Response – We will do so.

Conclusion – Response accepted.

Comment			Contact Person	Anticipated
Number	Comment Title	Corrective Action Plan	Title Phone Number	Date of Completion
III-A-04	Segregation of Duties over Federal Revenues.	The corrective action plan was documented in our response to the auditors' comment. See Schedule of Findings.	Diane Kennedy City Clerk (515) 386-3111	N/A